

**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
CLERK**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CUMBERLAND COUNTY CLERK

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Cumberland County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

There were no excess fees earned during the year ended December 31, 2005. The County Clerk has a current deficit of \$28,512. Revenues decreased by \$79,142 from the prior year and expenditures decreased by \$92,450.

Report Comments:

- The County Clerk Had A Deficit In Her Official Bank Account Of \$28,512 As Of December 31, 2005
- The County Clerk Should Deposit All Receipts Into Her Official Bank Account
- The County Clerk Should Not Commingle Official Funds With Personal Funds
- The County Clerk Expended \$9,440 More To Operate County Clerk's Office Than The Income Earned By The Office
- The County Clerk Should Properly Submit Deed Transfer Tax Payments To The County Of \$22,820 For 2005; \$11,843 For 2004; And \$11,551 For 2006
- The County Clerk Paid Herself \$3,600 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Properly Account For Accounts Receivable
- The County Clerk Should Prepare An Accurate 4th Quarter Financial Report
- The County Clerk's Office Lacks An Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive
Honorable Lynn Groce, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Cumberland County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tim Hicks, Cumberland County Judge/Executive
Honorable Lynn Groce, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Had A Deficit In Her Official Bank Account Of \$28,512 As Of December 31, 2005
- The County Clerk Should Deposit All Receipts Into Her Official Bank Account
- The County Clerk Should Not Commingle Official Funds With Personal Funds
- The County Clerk Expended \$9,440 More To Operate County Clerk's Office Than The Income Earned By The Office
- The County Clerk Should Properly Submit Deed Transfer Tax Payments To The County Of \$22,820 For 2005, \$11,843 For 2004, And \$11,551 For 2006
- The County Clerk Paid Herself \$3,600 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Properly Account For Accounts Receivable
- The County Clerk Should Prepare An Accurate 4th Quarter Financial Report
- The County Clerk's Office Lacks An Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Cumberland County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2006

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services	\$	2,795
Fiscal Court		5,038

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	186,727	
Usage Tax		333,388	
Tangible Personal Property Tax		453,932	
Lien Fees		2,390	

Other-

Fish and Game Licenses		4,634	
Marriage Licenses		1,932	
Deed Transfer Tax		25,315	
Delinquent Tax		33,147	1,041,465

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		9,284	
Real Estate Mortgages		8,865	
Chattel Mortgages and Financing Statements		23,271	
Powers of Attorney		543	
All Other Recordings		8,194	

Charges for Other Services-

Candidate Filing Fees		420	
Copywork		3,826	54,403

Interest Earned		948
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Total Revenues		1,104,649
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	146,921	
Usage Tax		322,988	
Tangible Personal Property Tax		165,057	

Licenses, Taxes, and Fees-

Fish and Game Licenses		4,530	
Delinquent Tax		5,444	
Legal Process Tax		7,142	
Interest and Penalties		1,479	653,561

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
 LYNN GROCE, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	30,728	
Delinquent Tax		2,923	
Deed Transfer Tax		<u>1,229</u>	\$ 34,880

Payments to Other Districts:

Tangible Personal Property Tax		240,032	
Delinquent Tax		<u>16,518</u>	256,550

Payments to Sheriff 324

Payments to County Attorney 5,118

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 60,574

Contracted Services-

Advertising 468

Computer Maintenance 1,997

Materials and Supplies-

Office Supplies 3,427

Other Charges-

Conventions and Travel 1,096

Dues 350

Utilities 3,275

Postage 1,603

Printing Tax Bills 1,571

Refunds 942

Miscellaneous 492

Uncollected NSF Checks 323 76,118

Total Expenditures \$ 1,026,551

Less: Disallowed Expenditures

County Leadership Training (375)

Interest and Penalties (1,457)

Bluegrass Festival Booklet Advertising (30)

Overdraft Fees (48)

Returned Check Fees (50)

Total Disallowed Expenditures (1,960)

Total Allowable Expenditures 1,024,591

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
 LYNN GROCE, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Net Revenues Before Unpaid Obligations		\$	80,058
Less: Unpaid Obligations			
Due to County-			
Deed Transfer Tax			<u>22,820</u>
Net Revenues			57,238
Less: Statutory Maximum			<u>60,683</u>
Excess Fees			(3,445)
Less: Clerk's Expense Allowance	\$	3,600	
Less: Training Incentive Benefit		<u>2,395</u>	<u>5,995</u>
Fee Account Deficit		\$	<u><u>(9,440)</u></u>

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank	\$	20,723
Deposits in Transit		3,665
Receivables:		
Payments on 2005 Accounts Receivable		3,566
2006 Receipts Transferred To The 2005 Fee Account		10,750
Interest		85
IRS Pay		40
Excess Fees Due Back From Fiscal Court		1,009
		<hr/>
Total Assets		39,838

Liabilities

Paid Obligations:

Outstanding Checks	\$	5,556
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State Treasurer-

Motor Vehicle Licenses	\$	2,416	
Tangible Personal Property Tax		7,455	
Fish and Game Licenses		184	
Legal Process Tax		510	
Delinquent Tax		46	
Interest and Penalties		67	
		<hr/>	10,678

Cumberland County-

Tangible Personal Property Tax	1,429	
Delinquent Tax	44	
Excess Fees - 2005	1,009	
Withholdings	2,847	
	<hr/>	5,329

Payments to Other Districts

Tangible Personal Property Tax	11,495	
Delinquent Tax	135	
	<hr/>	11,630

Payments to Sheriff	10
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Payments to County Attorney	44
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CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS
December 31, 2005
(Continued)

Liabilities (Continued)

Advertising	\$	295	
Office Supplies		483	
Computer Maintenance		200	
Utilities		474	
Returned Check, Overdraft Fees and Bank Charges		81	
Total Paid Obligations			\$ 34,780
Unpaid Obligations:			
Repayment of 2006 receipts transferred to 2005 Fee Acct.		10,750	
Due to Fiscal Court for Deed Transfer Tax		<u>22,820</u>	
Total Unpaid Obligations			<u>33,570</u>
Total Liabilities			<u>68,350</u>
Total Fund Deficit as of December 31, 2005			<u><u>\$ (28,512)</u></u>

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COMMENTS AND RECOMMENDATIONS

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The County Clerk Had A Deficit In Her Official Bank Account Of \$28,512 As Of December 31, 2005

The County Clerk is responsible for a deficit of \$28,512 in her official bank account as of December 31, 2005. This deficit resulted from the following:

Undeposited Receipts:		
Receipts Undeposited By Clerk	\$ 7,158	
Receipts Undeposited By Office Staff	135	
Uncollected Accounts Receivable	571	
Uncollected NSF Checks	323	
2005 Receipts deposited into 2004 Fee Account	<u>8,925</u>	
Total Undeposited Receipts		\$ 17,112
Disallowed Expenditures:		
County Leadership Training	375	
Interest And Penalties Paid to the State	1,457	
Bluegrass Festival Booklet Advertising	30	
Overdraft Fees	48	
Returned Check Fees	<u>50</u>	
Total Disallowed Expenditures		1,960
Excess of Expenditures Over Revenues:		
Clerk's Expense Allowance	3,600	
(only allowable if revenues are available)		
Overspending of Allowable Expenditures	<u>5,840</u>	
Total Excess of Expenditures Over Revenues		<u>9,440</u>
Total Deficit As of December 31, 2005		<u><u>\$ 28,512</u></u>

We recommend the County Clerk eliminate the \$28,512 deficit with a deposit of personal funds to her 2005 fee official bank account.

County Clerk's Response: No response.

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

The County Clerk Should Deposit All Receipts Into Her Official Bank Account

During our audit we noted numerous instances where the daily checkout sheet totals were more than the daily bank deposits made by the County Clerk, reflecting undeposited receipts. Numerous daily checkout sheets had notations at the bottom with amounts taken out or added with either the County Clerk's initials or her office staff indicating money taken out of the deposit or repaid. The daily checkout sheets also included accounts receivable charged and repaid. To get an accurate amount of undeposited receipts, we compared daily checkout sheets to daily bank deposits for 2005. Based upon this comparison, we determined that undeposited receipts by the County Clerk, her office staff, and unpaid accounts receivable totaled \$8,187. In addition, in January 2005, the County Clerk transferred \$8,925 of 2005 receipts to the 2004 fee account. This resulted in total undeposited receipts of \$17,112 as of December 31, 2005.

Subsequent to our audit period we found additional undeposited receipts in the County Clerk's 2006 official bank account. Based upon available records and comparisons of daily checkout sheets and daily deposits, it has been determined that undeposited receipts by the County Clerk and unpaid accounts receivable totaled \$9,132 from January 1, 2006 through August 31, 2006 in the County Clerk's 2006 official bank account. In addition, in January 2006, the County Clerk transferred \$10,750 of 2006 receipts to the 2005 official bank account. This results in total undeposited receipts in the 2006 official bank account of \$19,882 as of August 31, 2006.

We recommend that the County Clerk take appropriate measures to ensure that all public monies entrusted to her, based on the statutory authority of her office, be deposited into her official bank account intact.

County Clerk's Response: No response.

The County Clerk Should Not Commingle Official Funds With Personal Funds

The County Clerk had total undeposited receipts of \$17,112 in her official bank account as of December 31, 2005. Of this total, the County Clerk personally withheld \$9,229 from the daily deposits and repaid \$2,071, leaving a balance of \$7,158 unpaid at year-end. This was based upon our review of daily checkout sheets that included notations at the bottom with amounts and the County Clerk's initials or a difference between the deposit total on the daily checkout sheet and the actual bank deposit. An interview conducted with the County Clerk on August 1, 2006, substantiated the documentation reviewed by the auditors.

Subsequent to our audit period we found additional undeposited receipts of \$19,882 in the County Clerk's 2006 official bank account for the period of January 1, 2006 through August 31, 2006. Of that total, the County Clerk personally withheld \$7,307 from the daily deposits and repaid \$457, leaving a balance of \$6,850 unpaid as of August 31, 2006. This was also based upon our review of 2006 daily checkout sheets and bank deposits.

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

The County Clerk Should Not Commingle Official Funds With Personal Funds (Continued)

Technical Audit Bulletin 93-002 states, "that a county official is in violation of KRS 64.850, Commingling of Public Funds, if more than \$200 of public funds are accumulated and/or retained and not deposited into an official bank account intact on a daily basis."

We recommend that the County Clerk not withhold any money from her daily deposits for any reason including personal reasons.

County Clerk's Response: All money will be deposited into proper accts before end of year.

The County Clerk Expended \$9,440 More To Operate County Clerk's Office Than The Income Earned By The Office

The County Clerk's office had total revenues of \$1,104,649 and allowable expenditures of \$1,110,489 including the County Clerk's maximum annual salary. Additionally, the County Clerk was paid an expense allowance of \$3,600 that would only be allowable if she had excess fees. Therefore, the County Clerk used \$9,440 more to operate the clerk's office than the office earned for 2005. We recommend that the County Clerk only expend available revenues.

County Clerk's Response: No response.

The County Clerk Should Properly Submit Deed Transfer Tax Payments To The County Of \$22,820 For 2005, \$11,843 For 2004, And \$11,551 For 2006

The County Clerk did not properly submit deed transfer tax payments to the fiscal court. During calendar year 2005, the County Clerk only paid one partial quarterly payment totaling \$1,229 to the fiscal court. However, four quarterly payments totaling \$24,049 should have been made. The remaining \$22,820 is due to the fiscal court from the 2005 fee account.

We also reviewed deed transfer tax payments for calendar years 2004 and 2006 and found that the County Clerk owes the fiscal court \$11,843 for calendar year 2004 and \$11,551 for payments that have not been properly made for 2006. We recommend the County Clerk pay the fiscal court deed transfer tax payments totaling \$22,820 for calendar year 2005 and pay the deed transfer tax payments due from 2004 of \$11,843 and amounts identified of \$11,551 for 2006 plus any additional 2006 deed transfer tax amounts through December 31, 2006.

County Clerk's Response: No response.

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

The County Clerk Paid Herself \$3,600 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations

The County Clerk received \$3,600 for her expense allowance for 2005, but did not pay amounts due the county for deed transfer tax. KRS 64.017(2) states "if the amount of fees collected will not fund the full amount of the annual expense allowance, then the county clerk shall receive the excess of such fees after all other lawful expenses and salaries have been paid." At the end of 2005 the County Clerk had unpaid deed transfer tax. We recommend the County Clerk reimburse her fee account for the \$3,600 expense allowance she paid herself in 2005 and not pay her expense allowance in the future until the fee account pays for all other expenses. This amount is included in the County Clerk's deficit in her official bank account of \$28,512.

County Clerk's Response: No response.

The County Clerk Should Properly Account For Accounts Receivable

During the course of our audit, it was noted that the County Clerk allowed customers to charge for services rendered by the Clerk's office. The County Clerk maintained a journal for the receivables, but the journal did not contain enough detailed information to provide an accurate accounting of receivables at year-end. As a result, Auditors examined and reviewed each daily checkout sheet for calendar year 2005 and documented all receivables. A total of \$68,796 was charged during calendar year 2005 with \$635 being uncollected at year-end. Any outstanding receivables at year-end are the personal responsibility of the County Clerk and were included as undeposited receipts for 2005.

We recommend that in the future, if the County Clerk allows customers to charge for services rendered by the Clerk's Office, a more detailed ledger be completed and maintained and the County Clerk ensure that all accounts are paid in full by year end.

County Clerk's Response: Contacting everyone to pay before end of year.

The County Clerk Should Prepare An Accurate 4th Quarter Financial Report

The Cumberland County Clerk did not prepare an accurate 4th Quarter Financial Report. Auditor noted that the front-page summary was incomplete and inaccurate, the disbursement section of the report was not footed or cross-footed as required, and was incomplete. KRS 43.075 (3) states, "The uniform audit standards and procedures promulgated by the Auditor shall include but need not be limited to the requirement that each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee, and whether or not each official is complying with all other legal requirements relating to the management of public funds by his office, including all publication requirements. The requirements for uniform formats for audit reports shall require that the format of reports for each category of county or district office shall be uniform." Therefore, we recommend the Clerk prepare her quarterly report accurately and completely in order to be in compliance with KRS 43.075 (3)

CUMBERLAND COUNTY
LYNN GROCE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

The County Clerk Should Prepare An Accurate 4th Quarter Financial Report (Continued)

County Clerk's Response: No response.

INTERNAL CONTROL – REPORTABLE CONDITION - MATERIAL WEAKNESS

The County Clerk's Office Lacks An Adequate Segregation Of Duties

The Cumberland County Clerk has a weakness in their internal controls due to a lack of segregation of duties. We recommend the following:

- A. A qualified office employee independent of check writing and posting duties, match posting orders to checks and invoices. Initializing the purchase orders, and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of this segregation of duties,
- B. The person opening the mail keep a listing of all checks received that day, detailing date received, the check amount, who it is from, and what the check is for,
- C. The person preparing the bank reconciliation should be independent of the person responsible for receiving and posting of cash to the ledgers.

To have better internal controls, it is a best practice to keep the receipt of cash, the disbursements of cash, and the posting of cash to the ledgers delegated to separate individuals

County Clerk's Response: Small office staff.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS:

The County Clerk Should Prepare An Accurate Quarterly Financial Report – Repeated

The County Clerk Should Provide Accurate Withholding Statements to Employees – Corrected

The County Clerk Should Withhold Income Taxes On Training Incentive Benefits – Corrected

The County Clerk's Office Lacks An Adequate Segregation Of Duties – Repeated

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive
Honorable Lynn Groce, Cumberland County Clerk
Members of the Cumberland County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Cumberland County Clerk for the year ended December 31, 2005, and have issued our report thereon dated November 21, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks An Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Cumberland County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Had A Deficit In Her Official Bank Account Of \$28,512 As Of December 31, 2005
- The County Clerk Should Deposit All Receipts Into Her Official Bank Account
- The County Clerk Should Not Commingle Official Funds With Personal Funds
- The County Clerk Expended \$9,440 More To Operate County Clerk's Office Than The Income Earned By The Office
- The County Clerk Should Properly Submit Deed Transfer Tax Payments To The County Of \$22,820 For 2005, \$11,843 For 2004, And \$11,551 For 2006
- The County Clerk Paid Herself \$3,600 In Expense Allowance When Funds Were Not Paid For Other Statutory Obligations
- The County Clerk Should Properly Account For Accounts Receivable
- The County Clerk Should Prepare An Accurate 4th Quarter Financial Report

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2006

